

## **Capital Asset Management**

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Benjamin Hart  
Allen, Gibbs & Houlik, L.C.  
Wichita, Kansas

- I. Introduction & Basics
    - from CIP to Fixed Asset to Disposition with a few audit topics sprinkled in.
  - II. Basics
    - used in operations, and have an initial useful life in excess of one year.
    - Cost to acquire, construct, and improve capital asset is deferred over useful life as depreciation expense or amortization expense.
    - Major Classes


<u>Non-Depreciable</u>	<u>Depreciable</u>
Land	Buildings
Construction in Progress	Improvements
	Machinery & Equipment
	Infrastructure
	Other Capital Assets
- III. PBCs
  - Financial statements
    - o MD&A
    - o Statement of Net Assets
    - o Notes
  - Audit Schedules
    - Reconciliation Capital to Expend.
    - Capital Asset Roll Forward
- IV. Life Cycle
  - a. Capital Improvement Plan & Budget
  - b. General Ledger
  - c. Disposition
- V. Ownership
  - a. Reported in one set of financial statements, or,
  - b. The government responsible for managing the capital asset, key responsibility is maintenance
- VI. Impairments
- VII. Audit Perspective
  - a. Standards – SAS 106, SAS 107
  - b. Inherent Risk, Control Risk, Detection Risk
  - c. Procedures –
    - i. Analytical – ratio expectations, actual expenditures comparison

- ii. Substantive – asset inventory observation
- iii. Ledger searches
- d. Problems, problems, problems:
  - i. Charged to the wrong account or **not recorded at all**.
  - ii. Used for purposes other than those for which they were intended.
  - iii. Fail to include certain intangible assets and infrastructure.
  - iv. Adequately safeguard capital assets from weather, loss, or misuse.
  - v. No procedures in place to identify and record intangible assets or infrastructure.
  - vi. Segregation of duties:
  - vii. the individual responsible for asset accountability and the person who accounts for the assets is not adequate.
  - viii. Periodic inventories of the capital assets are not performed.
  - ix. Periodic counts of the capital assets are performed, but the custodian makes adjustments to the asset listing without obtaining the proper approvals.
  - x. Capital assets have been charged to repairs and maintenance or not recorded at all.
  - xi. Entity is using improper lives or methods for calculating depreciation charges.
  - xii. Material amounts of assets no longer in service are included in the capital asset amounts and have not been separately identified or removed from the books.
  - xiii. Asset impairments are not periodically evaluated.